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Irving Trust

Financial Markets

Irving Trust Company
One Wall Street
New York, NY 10015

Economic Research & Planning Division

Friday (Noon)

Feb. 27, 1981

Money market rates on balance worked down slightly this week, while long-term rates remained essentially unchanged or moved only slightly higher. The rate on Federal funds rose from the 14+% level it reached last Friday and traded for the most part slightly above 15%. Though it is impossible to be certain at this point, it appears that the Federal Reserve--consistent with the views expressed in the December FOMC meeting--intends to resist any rapid near-term declines in the rate.

The main event of the week was Chairman Volcker's congressional testimony. The Chairman reaffirmed the Board's intention to lower the pace of monetary growth gradually, so that 1981 target ranges for M-1A and M-1B have been lowered 1/2% from their 1980 levels--to 3% to 5 1/2% and 3 1/2% to 6%, respectively. However, due to the newly authorized NOW accounts' distorting effects on the narrow aggregates, these target ranges have been adjusted by the Fed to -4 1/2% to -2% for M-1A and 6% to 8 1/2% for M-1B. Currently, both aggregates are growing very sluggishly relative to the targets, suggesting the possibility of some further easing of the Fed's policy stance in the future. However, barring severe contraction in the aggregates, this will probably not occur in the next few weeks.

Another major theme in Volcker's testimony was the need for Congress to enact budget cuts. Specifically, the Chairman stated, "I see no risk in overdoing spending cuts... the risk is all in not doing enough." Ironically, the administration provided some confirmation of this point in the afternoon following Volcker's Wednesday morning testimony, when it announced that corrections of estimated fiscal year 1982 expenditures had added several billion dollars to the outlays. Predictably, long-term rates rose on the news.

Though some signs of investor support for the intermediate- and long-term markets are beginning to emerge, the situation is still cloudy. Dealers continue to hold substantial quantities of recent Treasury issues, and the calendar of corporate bond offerings is large and likely to grow, particularly in the 30-day visible area.

Moreover, as indicated earlier, a substantial probability exists that the Federal funds rate is at or near the bottom of the acceptable range set by the Fed. In the past, that would not have mattered much, since the range was adjusted whenever it became a serious obstacle to implementation of the Fed's targets for reserves provision. However, the Fed clearly does not want to repeat last spring's error of allowing rates to fall too far, too fast, and that argues for a more serious funds rate constraint. Also, it is probably relevant that the Reagan administration has made slowing the pace of monetary growth a key part of its economic strategy. Hence, near term, further declines of interest rates are likely to be conditioned on continued sluggishness of monetary growth and signs of economic weakness, which--despite a few suggestive indicators--have yet to emerge in a convincing way.

William C. Melton

Note: The full text of this letter is available to Telerate subscribers on pages 7250-51 on the Monday morning following the Friday date of the letter.

Irving Trust

Market Yields

	2/27/81 (Noon)	Week Ago	Year Ago
Prime Lending Rate a Irving Trust Company	19.00%	19.50%	16.75%
Effective since	2/23/81		
Discount Rate at Federal Reserve Bank	13.00	13.00	13.00
Federal Funds	15.50	14.50	15.50
Repurchase Agreements	15.13	14.00	13.25
U.S. Treasury Issues			
Bills			
3 months	14.77	14.83	14.55
6 months	14.93	14.70	15.10
1 year	14.45	14.20	15.40
Coupons			
2 years	13.86	13.63	14.66
4 years	13.65	13.27	13.71
7 years	13.52	13.00	13.08
10 years	13.34	12.94	12.80
Long Bond	12.86	12.57	12.29
Negotiable Certificates of Deposit-Secondary Market			
1 month	15.15	15.15	15.00
3 months	15.40	15.15	15.65
6 months	15.60	15.40	16.05
1 year	15.50	15.15	16.00
Banker's Acceptances			
1 month	15.00	15.85	14.95
3 months	15.35	15.60	15.60
6 months	15.75	14.45	16.10
Eurodollar Deposits			
1 month	16.00	15.94	16.25
2 months	16.38	16.25	16.63
3 months	16.63	16.38	17.00
Commercial Paper - Prime Names			
Directly placed by:			
Finance Companies			
1 week	15.00	8.00	14.00
1 month	14.50	14.25	14.50
3 months	14.00	14.00	14.00
Bank Holding Companies			
1 month	14.88	15.00	14.63
Dealer Placed:			
3 months	15.20	14.63	14.88
New AA Corporate Utility Bond	15.15	15.00	14.50
Tax Exempt			
6 month Project Notes	7.10	6.80	7.00
1 year AAA Bond	7.00	7.00	NA
5 year AAA Bond	7.65	7.65	NA
20 year AAA Bond	9.35	9.40	8.50

This information represents prevailing market yields.
It should not be construed as an offering.
All yields are on the offered side of the market.

Cable Address:
"IrvingBank" Telex: I.T.T. 420268 • R.C.A. 232241
W.U.I. 62832 • French 82629